



COMPANY UPDATE / RATING CHANGE

Health Care Services

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Key Metrics

LDR - NYSE (as of 09/05/17)	\$61.35
Price Target	N/A
52-Week Range	\$41.35 - \$62.85
Shares Outstanding (mm)	9.6
Market Cap. (\$mm)	\$591.3
Enterprise Value (\$mm)	\$657.3
1-Mo. Average Daily Volume	14,078
Institutional Ownership	86.6%
Total Debt / Total Capital	84.1%
ROE (TTM)	81.8%
Price / Book Value	20.0x
Indicated Dividend / Yield	\$1.10 1.8%
TTM Operating Margin	19.1%

Operating EPS FY 9/30

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.40		\$0.45A	\$0.36	\$0.36
2Q	\$0.44		\$0.55A	\$0.45	\$0.45
3Q	\$0.50		\$0.60A	\$0.54	\$0.54
4Q	\$0.37	\$0.21	\$0.21	\$0.35	\$0.35
Year	\$1.71	\$1.82	\$1.82	\$1.70	\$1.70
P/E	36.0x		33.8x		36.2x

Figures may not add up due to rounding

Revenue (\$mm)

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$36.5		\$37.6A	\$37.5	\$37.5
2Q	\$38.1		\$39.1A	\$39.0	\$39.0
3Q	\$37.9		\$39.9A	\$39.7	\$39.7
4Q	\$36.8	\$36.8	\$36.8	\$37.9	\$37.9
Year	\$149.2	\$153.4	\$153.4	\$154.2	\$154.2

Company Description – Based in Glenwood, IL, Landauer, Inc. is the world's largest provider of personnel radiation monitoring services. The dosimetry badges are sold to health care providers, energy producers, and military customers. The company also provides medical physics services for customers with diagnostic imaging equipment and radiation oncology operations.

Landauer, Inc.

LDR – NYSE – Neutral – 4

Landauer to be Acquired by Fortive; Upgrading to Neutral

- Landauer has agreed to be acquired by Fortive Corporation (FTV - \$65.09) for \$770 million, including the assumption of debt and net of cash. Landauer shareholders will be paid \$67.25 per share in cash. The takeout price is less than a 10% premium from yesterday's closing price. The transaction is expected to close by the end of 2017, subject to shareholder approval and regulatory approval. We do not expect any issues at this time.
- Fortive is an industrial company spun off from Danaher (DHR - \$83.06) last year. Although Fortive is acquiring Landauer at all-time high valuations on just about every measure, the acquisition seems to fit into their Professional Instrumentation segment quite well, although the hospital customer will be a new end market for them.
- We are surprised Landauer is willing to sell considering their agreement with activist investor Gilead Capital included a promise from Gilead to not push for a sale until the 2020 Annual Meeting at the earliest. Additionally, the company is on the cusp of launching a next generation product that will be crucial to keep up with competition, in our opinion.
- Due to the acquisition, we are upgrading our rating to Neutral from Underperform.

Note Important Disclosures on pages 4 and 5

Note Analyst Certification on page 4

SUITABILITY

Landauer reports approximately 90% recurring revenue and a 94% annual customer retention rate in Radiation Measurement. Further, competition has historically been weak in the Radiation Measurement and Medical Physics industries. However, the company's recent history has raised the risk profile of the stock. Ill-fated acquisitions and accounting issues are the primary sources. Additionally, a new product launch by a competitor could pressure the company. Finally, the small-cap stock's low trading volumes, relatively weak liquidity, and leverage are also factors in our suitability rating of 4. The stock may not trade based on fundamentals going forward due to the pending acquisition.

RISKS & CONSIDERATIONS

- **Competition and technological innovation** – The dosimetry business requires complex operations with many technological aspects. A competitor or new company could produce innovations that could displace Landauer as the industry leader.
- **Verifii failures** – Landauer is taking a major stride in deploying the Verifii platform, shifting the company to be as much a software company as a dosimeter manufacturer. The software business carries additional risks such as hacking or cloud disruptions. These issues could lead to customer dissatisfaction and financial disappointment.
- **Changing healthcare trends** – Diagnostic imaging utilization has experienced a massive increase over the past few decades. This has increased the value of the medical physics market. Significantly decreased utilization or innovation that enables ultrasounds to provide clarity on par with radiation-emitting imaging machines could reduce the need for medical physicists and harm the Medical Physics business.
- **Regulatory** – Landauer's growth opportunity in the Medical Physics business primarily revolves around new regulations. Should these regulations be reversed or altered, uncertainty may arise.
- **Legal** – Product lawsuits are common in the health care sector. An unfavorable court decision could hamper the ability to market a product.
- **Pending Acquisition** – Should the acquisition by Fortive fail to go through, the stock may be adversely affected.

LANDAUER, INC.								LDR: NEUTRAL	
In millions	2015 A	2016 A	1Q17 A	2Q17 A	3Q17 A	4Q17 E	2017 E	2018 E	2019 E
Fiscal Period End	9/30/2015	9/30/2016	12/31/2016	3/31/2017	6/30/2017	9/30/2017	9/30/2017	9/30/2018	9/30/2019
Income Statement									
Radiation Measurement	106.0	104.2	27.6	28.7	29.6	26.2	112.1	110.8	116.4
Operating Margin %	33.6%	36.3%	40.6%	39.8%	41.0%	26.2%	37.2%	34.8%	38.1%
Medical Physics	35.4	39.2	9.9	10.4	10.3	10.7	41.3	43.3	44.3
Operating Margin %	8.8%	8.2%	6.8%	6.4%	7.7%	7.5%	7.1%	8.7%	9.5%
Medical Products	9.9	5.8							
Operating Margin %	15.5%	18.3%							
Total Revenue	151.3	149.2	37.6	39.1	39.9	36.8	153.4	154.2	160.6
Gross Margin %	52.0%	50.6%	52.3%	51.9%	52.9%	50.1%	51.8%	52.8%	53.0%
Gross Profit	78.7	75.5	19.6	20.3	21.1	18.5	79.5	81.4	85.2
SG&A Expenses	54.0	48.8	12.2	12.5	12.5	15.0	52.2	56.0	54.3
Non-GAAP Operating Income	24.7	26.6	7.4	7.8	8.6	3.5	27.3	25.4	30.9
Operating Margin %	16.3%	17.9%	19.8%	20.0%	21.5%	9.5%	17.8%	16.5%	19.3%
Adjusted EBITDA*	37.1	37.7	9.7	10.7	11.3	6.2	37.9	36.1	41.6
EBITDA Margin %	24.5%	25.3%	25.9%	27.4%	28.3%	16.8%	24.7%	23.4%	25.9%
Non-recurring Items**	(1.0)	0.0	0.4	(0.3)	0.0	0.0	0.0	0.0	0.0
Equity in Income of JVs	2.3	1.5	0.6	1.2	1.2	0.4	3.4	2.0	2.4
Interest Expense	(4.4)	(3.4)	(0.8)	(0.6)	(0.7)	(0.7)	(2.8)	(3.0)	(2.9)
Other Income	(0.3)	3.6	(0.3)	0.1	0.0	0.0	0.0	0.0	0.0
Pre-tax Income	21.3	28.4	7.0	8.4	9.1	3.2	27.9	24.4	30.5
Effective Tax Rate	29.4%	34.9%	34.2%	36.6%	27.5%	31.0%	32.1%	30.0%	30.0%
Net income attributed to noncontrolling interest	0.5	0.7	0.2	0.2	0.2	0.2	0.7	0.7	0.7
Net Income (attributed to LDR)	14.5	17.8	4.4	5.2	6.4	2.0	18.0	16.4	20.6
Non-GAAP Operating Net Income***	14.8	16.3	4.4	5.3	5.8	2.0	17.4	16.4	20.6
Diluted Shares Outstanding	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.7	9.7
GAAP EPS Attributed to LDR Shareholders	\$1.52	\$1.86	\$0.46	\$0.54	\$0.67	\$0.21	\$1.87	\$1.70	\$2.12
Non-GAAP EPS Attributed to LDR Shareholders***	\$1.55	\$1.71	\$0.45	\$0.55	\$0.60	\$0.21	\$1.82	\$1.70	\$2.12
Balance Sheet									
Cash and Equivalents	15.3	13.3	12.4	12.9	21.1	23.1	23.1	29.9	42.2
Other Current Assets	46.4	42.7	44.7	48.8	52.2	45.8	45.8	47.5	49.1
Total Current Assets	61.8	56.0	57.1	61.7	73.3	68.9	68.9	77.3	91.2
Net PP&E	46.4	46.4	46.1	46.6	47.2	58.2	58.2	58.1	57.9
Equity in Joint Ventures	24.0	26.2	25.0	25.3	26.5	26.5	26.5	26.5	26.5
Intangible Assets	48.1	43.1	42.3	42.3	42.5	33.9	33.9	33.9	33.9
Other Assets	28.5	19.1	17.3	14.7	8.7	5.3	5.3	2.1	6.0
Total Assets	208.7	190.8	187.8	190.5	198.2	192.7	192.7	198.0	215.4
Current Liabilities	38.5	34.5	33.1	33.4	36.3	36.9	36.9	37.6	39.2
Long-term Debt	133.4	109.1	107.6	105.1	100.6	98.6	98.6	90.1	88.5
Other Non-Current Liabilities	24.5	26.6	26.7	27.0	30.4	30.4	30.4	30.4	30.4
Total Liabilities	196.4	170.2	167.3	165.4	167.3	165.8	165.8	158.1	158.1
Non-controlling Equity Interest	1.1	1.4	1.2	1.3	1.5	1.5	1.5	1.5	1.5
Total LDR Shareholders' Equity	11.2	19.2	19.2	23.8	29.4	25.5	25.5	38.4	55.9
*We do not include Equity in Income of JVs and Other Income									
**Excludes impairment and restructuring charges and non-recurring items									
***Excludes non-recurring items and other income, with a constant tax rate of 35% applied to FY14 and 31% applied to 4Q16									
Source: Company Reports and Hilliard Lyons estimates									

Additional information is available upon request.

Analyst Certification

I, Kurt A. Kemper, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Definitions of Suitabilities:

1. A large cap, core holding with a solid history.
2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

Other Disclosures

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